



ROD BLAGOJEVICH
GOVERNOR

STATE OF ILLINOIS
GOVERNOR'S OFFICE OF
MANAGEMENT AND BUDGET

FISCAL YEAR 2005 – YEAR END FINANCIAL OVERVIEW

FISCAL YEAR 2005 OPERATING HIGHLIGHTS

Table I
OPERATING HIGHLIGHTS*
FY2004 vs. FY2005
(in millions)

	<u>FY 04</u>	<u>FY 05</u>	<u>Change</u>	<u>%</u> <u>Change</u>
OPERATIONS				
General Funds Revenues	\$ 23,107	\$ 23,647	\$ 540	2.3%
Operating Transfers In *	3,716	2,513	(1,203)	-32.4%
Total Operating Receipts	\$ 26,823	\$ 26,160	\$ (663)	-2.5%
General Funds Expenditures*	\$ 23,449	\$ 22,187	\$ (1,262)	-5.4%
Operating Transfers Out	2,519	3,658	1,139	45.2%
Total Operating Disbursements	\$ 25,968	\$ 25,845	\$ (123)	-0.5%
Cash Basis Operating Surplus/(Deficit)*	\$ 855	\$ 315	\$ (540)	N/A
Other Financial Sources (Uses)	\$ (990)	\$ -	\$ 990	-100.0%
Increase/(Decrease) in Cash *	\$ (135)	\$ 315	\$ (450)	

* Refer to Appendices I and II details.

Revenues and Operating Transfers In

As illustrated in Table I and detailed in Appendix II, Revenues and Operating Transfers In collected in fiscal year 2005 were \$26,160 million, which was \$663 million or 2.5% under the comparable collections of fiscal year 2004. State Revenues increased by \$1,408 million or 7.8%, primarily driven by growth in income and sales taxes. These taxes are economically sensitive revenue sources that reflect the overall improvement in the Illinois economy which occurred in FY 2005. Federal receipts decreased by \$868 million from prior year levels due to a one-time increase in Medicaid reimbursement rates (from 50% to 52.95%) and certain Federal grants that were available only for fiscal year 2004, for a net increase in General Funds revenues of \$540 million. The \$1,203 million decrease in Operating Transfers In was caused by the non-recurring \$1,395 million transfer in Fiscal Year 2004 from the Pension Contribution Fund of proceeds from the issuance of Pension Obligation Bonds.

As detailed in Appendix I, several sources of fiscal year 2005 revenues were above fiscal year 2004 levels. These included:

- **Income Taxes (\$943 million increase):** Individual income taxes collected in fiscal year 2005 increased by 7.7% or \$637 million from fiscal year 2004, primarily due to an improving economy. Receipts generated by the Voluntary Compliance Program (\$100 million) and the effects of the tax amnesty program (\$35 million) were also included in fiscal year 2004 figures. Excluding the tax amnesty factor in fiscal year 2004, the year-to-date net individual income taxes would have been up by \$672 million, or 8.2%.

Corporate income tax collections increased 12.4% or \$171 million over fiscal year 2004 due to the improving economy. Excluding the tax amnesty factor in fiscal year 2004, the year-to-date net corporate income taxes would have been up by \$388 million, or 49.5%.

As a result of a significant reduction in the backlog of refunds and reflecting a decrease of \$135 million from the amount provided in fiscal year 2004 for income tax refunds, net income tax collections increased by \$943 million, or 11.5% more than in fiscal year 2004.

- **Sales Taxes (\$264 million increase):** Sales taxes were up 4.2% in fiscal year 2005 compared to the prior year. Excluding the tax amnesty receipts of approximately \$94 million collected in fiscal year 2004, the increase would have been \$358 million or 5.7% over the adjusted base revenues.
- **Inheritance Taxes (\$88 million increase):** The 39.6% growth was primarily due to the settlement of large estates and the decoupling from federal inheritance tax requirements that occurred in fiscal year 2004.
- **Public Utility Taxes (\$23 million decrease):** Public Utility Taxes fell by 2.1% in fiscal year 2005. Telecommunication taxes decreased, primarily due to use of alternate communication avenues including the Internet and cell phones not subject to long-distance charges. Electricity receipts also declined due to the mild summer months during fiscal year 2005.
- **Insurance Taxes and Fees (\$20 million decrease):** The \$20 million (5.5%) decrease was primarily due to a significant increase in corporate income tax payments that are allowed as credits against owed insurance tax liabilities.
- **Gaming and Lottery (\$80 million increase):** Gaming increased by \$36 million (5.4%) reflecting increased gambling taxes (\$19 million and 14.3%) and increased transfers from the Gaming Fund (\$17 million and 3.2%). Lottery receipts grew by \$44 million (7.7%).
- **All Other Sources (\$132 million increase):** Investment Income and Corporate Franchise Tax and Fees each increased by \$18 million during fiscal year 2005. The former was associated with significant increases in investment rates while the latter was attributable to the improving economy. Liquor Gallonage Taxes and Cook County Intergovernmental Transfers increased by \$20 million and \$5 million, respectively. Cigarette Taxes increased by \$50 million or 12.5% due to a one-time reallocation to general funds. Other State sources increased by \$26 million or 5.5%.
- **Federal Receipts (\$498 million decrease):** Fiscal Year 2005 Federal Revenues decreased by \$868 million (16.9% decline) from Fiscal Year 2004 levels because of one-time revenue enhancements that occurred in 2004. These enhancements included \$434 million derived from a higher medical reimbursement rate (52.95% versus 50%) and \$422 million received under the Jobs and Growth Tax Relief Reconciliation Act of 2003. Both programs were no longer available to the states in Fiscal Year 2005. However the \$434 million in additional reimbursements collected in the Hospital Provider Fund in fiscal 2004 were transferred in to the General Revenue Fund in fiscal 2005, resulting in a \$370 million increase in Federal Transfers In. The \$868

million decrease in Federal revenues, together with the \$370 million increase in Federal Transfers In, resulted in the net decrease in Federal receipts of \$498 million.

Expenditures and Transfers Out

As shown in Appendix II, fiscal year 2005 total Expenditures and Transfers Out decreased by \$123 million (0.5% decrease) from fiscal year 2004. That decrease was primarily attributable to additional Medicaid payments made in fiscal year 2004 to take advantage of the higher Federal reimbursement rates. In essence, Medicaid bills that would have been paid in fiscal year 2005 were accelerated into fiscal 2004 through an \$850 million short-term borrowing. Fiscal Year 2005 appropriations and spending were reduced by a corresponding amount.

Operating Highlights:

- **Awards and Grants (\$52 million decrease):** The decrease came from less Medicaid spending (\$688 million) in 2005 associated with the above-mentioned acceleration of fiscal 2005 payments into fiscal year 2004. Elementary and Secondary Educations grants were up \$330 million (6.1%) from fiscal year 2004. Human Services and Teachers Retirement grant spending increased \$129 million (4.9%) and \$188 million (25.2%), respectively.
- **Operations (\$10 million decrease):** Higher Education operating expenditures decreased by \$111 million (7.2%), primarily due to a shift in pension obligation funding from general funds to other state pension funds. For all other agencies combined, Operating expenditures increased by \$101 million (2.1%).
- **Transfers Out (\$1,139 million increase):** Transfers Out increased by \$1,139 million or 45.2% in fiscal year 2005, due in part to increased debt service transfers to repay general obligation bonds and reclassification of some pension appropriations to pension obligation bonds, as well as significant increases in local government transfers.

FINANCIAL POSITION

The overall liquidity position of the State has improved significantly in fiscal year 2005. Current Liabilities decreased by \$154 million while Cash increased by \$315 million. A summary is provided in Table II and details are included in Appendix II.

While outstanding Accounts Payable at the end of fiscal year 2005 increased by \$379 million, Short-term Borrowing decreased by \$417 million. The backlog of outstanding income tax refunds totaling \$116 million at the end of fiscal year 2004 was eliminated with no outstanding tax refunds due at June 30, 2005; the backlog had peaked in fiscal year 2003 at approximately \$875 million.

Table II
FINANCIAL POSITION
FY2004 vs. FY2005
(in millions)

	<u>FY 04</u>	<u>FY 05</u>	<u>Change</u>
CASH BALANCE			
General Funds Cash Balance (6/30)	\$ 182	\$ 497	\$ 315
Budget Stabilization Fund Cash Balance (6/30)	276	276	-
Total Cash Balance (6/30)	<u>\$ 458</u>	<u>\$ 773</u>	<u>\$ 315</u>
CURRENT LIABILITIES			
General Funds Accounts Payable (6/30)	\$ 592	\$ 971	\$ 379
General Funds Short-Term Borrowing Due in Next FY	417	-	(417)
Income Tax Refunds Payable (6/30):	116	-	(116)
Total Current Liabilities	<u>\$ 1,125</u>	<u>\$ 971</u>	<u>\$ (154)</u>
Cash Balance of Income Tax Refund Fund	\$ 50	\$ 139	\$ 89

Source: Illinois Office of Comptroller

The fiscal year 2004 and fiscal year 2005 short-term borrowing to be repaid in fiscal year 2005 were repaid, as well as the fiscal year 2005 intra-year short-term borrowing. The 2004 short-term borrowing of \$850 million was incurred in June 2004 in order to benefit from higher Federal reimbursement rates expiring in June 2004 and accelerate payments to Medicaid providers, as previously discussed. An additional \$765 million of short-term borrowing proceeds were borrowed and repaid in fiscal year 2005, in order to generate additional Medicaid reimbursements in conjunction with the Hospital Assessment Tax.

FISCAL YEAR 2005 BUDGETARY COMPARISONS

The fiscal year 2005 budget was based on General Fund revenues projected at \$23,217 million. Table III summarizes the adopted budget versus fiscal year 2005 actual performance.

As detailed in Appendix III, fiscal year 2005 actual General Fund sources (excluding short-term borrowing and Hospital Provider Fund pass-through cash flows) totaled \$26,160 million, \$558 million or 2.2% more than the enacted budget. The growth in revenues is primarily due to Illinois' improving economy. Net Income Taxes and Sales Taxes were \$728 million (8.6%) and \$164 million (2.6%) more than budgeted, respectively. Federal Revenue forecasts plus Federal Transfers In together surpassed estimates by \$4 million. General Funds expenditures were \$817 million (3.6%) below budgeted amounts, reflecting the reduction in expenditures in excess of the reserve requirements imposed upon state agencies. The Cash Basis Operating Increase was primarily attributable to an unbudgeted increase in Accounts Payable, due in large part to General Funds cash held by the Treasurer's Office which has suspended certain fund transfers to the State's General Funds.

Table III
BUDGETARY COMPARISONS - HIGHLIGHTS*
FY 2005
(in millions)

	FY05 <u>Budget</u>	FY05 <u>Actual</u>	<u>Change</u>	<u>% Change</u>
BUDGETED OPERATIONS				
General Funds Revenues	\$ 23,217	\$ 23,647	\$ 430	1.9%
Operating Transfers In*	2,385	2,513	128	5.4%
Total Operating Receipts	\$ 25,602	\$ 26,160	\$ 558	2.2%
General Funds Expenditures	\$ 23,004	\$ 22,187	\$ (817)	-3.6%
Operating Transfers Out *	2,598	3,658	1,060	40.8%
Total Operating Disbursements	\$ 25,602	\$ 25,845	\$ 243	0.9%
Cash Basis Operating Increase/(Decrease)	\$ -	\$ 315	\$ 315	0.0%
BUDGETED FINANCIAL POSITION				
General Funds Cash Balance 7-1-04	\$ 182	\$ 182	\$ -	
Cash Basis Operating Increase/(Decrease) FY2005	-	315	315	
General Funds Cash Balance 6-30-05	\$ 182	\$ 497	\$ 315	
Budget Stabilization Fund Cash Balance	276	276	-	
Total Cash Balance 6-30-05	\$ 458	\$ 773	\$ 315	68.8%

*Excludes receipts from Short-Term Borrowing and disbursements to repay those borrowings.

**APPENDIX I
CASH RECEIPTS
General Funds
Fiscal Years 2004-2005
(in millions)**

	Fiscal Year		Change	
	FY 2004	FY 2005	Amount	Percent
Operating Revenue Receipts :				
State Sources, Cash Receipts:				
Gross Individual Income Tax	\$ 8,235	\$ 8,872	\$ 637	7.7%
Gross Corporate Income Tax	1,377	1,548	171	12.4%
Less Deposits to Income Tax Refund Fund	(1,404)	(1,269)	135	-9.6%
Net Income Taxes	\$ 8,208	\$ 9,151	\$ 943	11.5%
Sales Taxes	\$ 6,331	\$ 6,595	\$ 264	4.2%
Other Sources:				
Public Utility Taxes	\$ 1,079	\$ 1,056	\$ (23)	-2.1%
Cigarette Taxes	400	450	50	12.5%
Inheritance Tax (gross)	222	310	88	39.6%
Liquor Gallonage Taxes	127	147	20	15.7%
Insurance Tax and Fees	362	342	(20)	-5.5%
Corporation Franchise Tax & Fees	163	181	18	11.0%
Investment Income	55	73	18	32.7%
Cook County IGT	428	433	5	1.2%
Riverboat Gambling Taxes	133	152	19	14.3%
Other	474	500	26	5.5%
Total, Other Sources	\$ 3,443	\$ 3,644	\$ 201	5.8%
Total, State Revenues (Cash Receipts)	\$ 17,982	\$ 19,390	\$ 1,408	7.8%
Federal Cash Receipts	\$ 5,125	\$ 4,257	\$ (868)	-16.9%
Total, Revenues	\$ 23,107	\$ 23,647	\$ 540	2.3%
Transfers In:				
Lottery Fund	\$ 570	\$ 614	\$ 44	7.7%
State Gaming Fund ¹	530	547	17	3.2%
Pension Contribution Fund	1,395	-	(1,395)	-100.0%
Other State Funds ²	1,157	918	(239)	-20.7%
Federal Transfers In ³	64	434	370	578.1%
Total, Transfers In	\$ 3,716	\$ 2,513	\$ (1,203)	-32.4%
TOTAL, OPERATING CASH RECEIPTS	\$ 26,823	\$ 26,160	\$ (663)	-2.5%

¹ Excludes Riverboat Gambling Taxes.

² Excludes \$434 million related to Federal funds that IOC classified as Transfers In Other State Funds, per note #3 below.

³ Includes \$434 million related to Federal funds that IOC classified as Transfers In Other State Funds.

**APPENDIX II
CASH FLOW SUMMARY
General Funds
Fiscal Years 2004-2005
(in millions)**

	Fiscal Year		Change	
	FY 2004	FY 2005	Amount	Percent
TOTAL, OPERATING CASH RECEIPTS	\$ 26,823	\$ 26,160	\$ (663)	-2.5%
(See Appendix D)				
Operating Disbursements:				
Awards and Grants:				
State Board of Education	\$ 5,383	\$ 5,713	\$ 330	6.1%
Public Aid	5,547	4,859	(688)	-12.4%
Human Services	2,645	2,774	129	4.9%
Teachers Retirement	745	933	188	25.2%
Higher Education	769	765	(4)	-0.5%
All Other Grants	1,147	1,140	(7)	-0.6%
Total, Awards and Grants	\$ 16,236	\$ 16,184	\$ (52)	-0.3%
Operations:				
Other Agencies	\$ 4,815	\$ 4,916	\$ 101	2.1%
Higher Education	1,542	1,431	(111)	-7.2%
Total, Operations	\$ 6,357	\$ 6,347	\$ (10)	-0.2%
All Other (Includes Prior Year Adjustments)	(15)	57	72	-480.0%
Vouchers Payable Adjustment (Change in Bills On Hand)	\$ 871	\$ (401)	\$ (1,272)	N/A
TOTAL, OPERATING EXPENDITURES	\$ 23,449	\$ 22,187	\$ (1,262)	-5.4%
Regular Transfers Out	2,519	3,658	1,139	45.2%
TOTAL, OPERATING EXPENDITURES AND TRANSFERS OUT	\$ 25,968	\$ 25,845	\$ (123)	-0.5%
OPERATING CASH				
INCREASE/(DECREASE) ¹	\$ 855	\$ 315	\$ (540)	-63.2%
Other Financial Sources (Uses)				
Short-Term Borrowing Proceeds	\$ -	\$ 765	\$ 765	
Transfers to Repay Short-Term Borrowing	(1,216)	(1,044)	172	-14.1%
Transfers from Budget Stabilization Fund	226	276	50	22.1%
Net Cash Flow Transfers - Hospital Provider Fund	-	3	3	
Total Other Financial Sources (Uses)	\$ (990)	\$ -	\$ 990	-100.0%
CASH BASIS INCREASE (DECREASE) ²	\$ (135)	\$ 315	\$ 450	
AVAILABLE CASH BALANCE, BEGINNING	\$ 317	\$ 182	\$ (135)	
AVAILABLE CASH BALANCE, ENDING	\$ 182	\$ 497	\$ 315	

¹ Total Operating Cash Receipts minus Total Operating Expenditures and Transfers Out.

² Operating Cash Increase (Decrease) plus (minus) Total Other Financial Sources (Uses).

Source: Illinois Office of the Comptroller and GOMB.

APPENDIX III
FY2005 GENERAL FUNDS
OPERATING CASH FLOWS - GENERAL FUNDS
Enacted Budget vs. Actual
(in millions)

	FY2005		Actual Over (Under) Budget	
	Enacted Budget	Actual	Amount	Percent
Cash Basis Receipts:				
State Revenues:				
Gross Individual Income Tax	\$ 8,406	\$ 8,872	\$ 466	5.5%
Gross Corporate Income Tax	1,129	1,548	419	37.1%
Deposits to Income Tax Refund Fund	(1,112)	(1,269)	(157)	
Total, Net Income Taxes	\$ 8,423	\$ 9,151	\$ 728	8.6%
Sales Taxes	\$ 6,431	\$ 6,595	\$ 164	2.6%
Other State Revenues:				
Public Utility Taxes	\$ 1,102	\$ 1,056	\$ (46)	-4.2%
Cigarette Taxes	400	450	50	12.5%
Inheritance Tax (Gross)	240	310	70	29.2%
Liquor Gallonage Taxes	147	147	-	0.0%
Insurance Tax and Fees	347	342	(5)	-1.4%
Corp. Franchise Tax and Fees	175	181	6	3.4%
Investment Income	45	73	28	62.2%
Cook County IGT	450	433	(17)	-3.8%
Riverboat Gambling Taxes	150	152	2	1.3%
Other	619	500	(119)	-19.2%
Total, Other State Revenues	\$ 3,675	\$ 3,644	\$ (31)	-0.8%
Total, State Revenues	\$ 18,529	\$ 19,390	\$ 861	4.6%
Federal Cash Receipts	\$ 4,688	\$ 4,257	\$ (431)	-9.2%
Total, Revenues	\$ 23,217	\$ 23,647	\$ 430	1.9%
Transfers In:				
State Lottery Fund	\$ 578	\$ 614	\$ 36	6.2%
State Gaming Fund	503	547	44	8.7%
Other State Funds*	1,304	918	(386)	-29.6%
Federal Transfers In	-	434	434	N/A
Total, Transfers In	\$ 2,385	\$ 2,513	\$ 128	5.4%
Total, Revenues and Transfers In	\$ 25,602	\$ 26,160	\$ 558	2.2%
Cash Basis Disbursements:				
Awards and Grants:				
State Board of Education	\$ 5,744	\$ 5,713	\$ (31)	-0.5%
Public Aid	5,044	4,859	(185)	-3.7%
Human Services	2,785	2,774	(11)	-0.4%
Teachers Retirement	907	933	26	2.9%
Higher Education	784	765	(19)	-2.4%
All Other Grants	1,105	1,140	35	3.2%
Total, Awards and Grants	\$ 16,369	\$ 16,184	\$ (185)	-1.1%
Operations:				
Other Agencies	\$ 5,890	\$ 4,916	\$ (974)	-16.5%
Higher Education	1,370	1,431	61	4.5%
Total, Operations	7,260	6,347	(913)	-12.6%
Less Governor's Savings Initiatives	(86)	-	86	-100.0%
Less Lapsed Appropriations	(539)	-	539	-100.0%
Regular Transfers Out*	2,598	3,658	1,060	40.8%
All Other (Includes Prior Year Adjustments)		57		
Vouchers Payable Adjustment (Change in Bills On Hand)	-	(401)	(401)	
Total, Expenditures and Transfers Out	\$ 25,602	\$ 25,845	\$ 243	0.9%

*Transfers In and Transfers Out exclude Budget Stabilization Fund transfer of \$276 million.

Source: Illinois Office of the Comptroller and GOMB.